Financial Development, Corporate Governance

and Cost of Equity Capital*

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Abstract

This paper explicitly examines the interactive impact of country level legal and financial development, and firm level governance attributes on the cost of equity capital. Using a comprehensive sample of 7380 firm years drawn from 22 developed countries, we show that firm level governance attributes affect the cost of equity capital only in the Common Law countries with high level of financial development. Our study is the first to highlight the complementary effects of legal origin, financial development and firm level governance attributes in influencing the cost of equity capital.

Keywords: Corporate Governance, Financial Development, Legal Origin, Implied Cost of Equity Capital

JEL Classifications: G15; G34; F30

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